



STATE FUNDING FOR LOCAL STREETS

JULY 7, 2006

Background

- For each gallon of gas in Long Beach, you pay the following taxes: 18.3 cent federal excise tax, 18 cent state excise tax, and 8.25 percent sales tax (varies by jurisdiction).
- Under the Proposition 42 initiative passed in 2002, cities receive 20 percent of the sales tax on gasoline to be used for local transportation projects.
- Proposition 42 funds are one of the most flexible transportation funding source the City receives from the State, and can be used for street improvements, repairing/reconstructing unsafe roads, upgrading interchanges and highways, bridge work, transit improvements or fixing potholes.
- The City has traditionally used this funding for local street repair.
- Long Beach has lost millions of dollars through State borrowing and suspension of the funds to solve the State's budget deficit.
- The constant suspension of Proposition 42 funds has left the City without a viable and sustainable local street maintenance and rehabilitation program.
- Fiscal Year 2006 was the first year that the State Legislature fully funded Proposition 42 and did not divert any of the funds to the State General Fund.

History of State Prop 42 Funding

- In FY 02 and FY 03, cities and counties received some funding for street and road maintenance (called AB 2928 funding), while State projects went unfunded due to budget deficits.
- The trade-off for receiving funding in these two years was that cities and counties would not be entitled to any Prop 42 funding in Fiscal Years 2007 and 2008.
- In FY 04 and FY 05, the State suspended payments to cities and counties completely, creating a debt that they would eventually have to repay.
- As mentioned previously, FY 06 was the first year that the State fully funded Prop 42, and the City began receiving funding again.
- For the recently passed FY 07 Budget, local governments pressed for additional Prop 42 payments for FY 07 and FY 08, as cities are currently not entitled to Prop 42 funds for those years.
- In response, the Governor and State Legislature used higher than expected revenues to partially repay local governments for some of the funds diverted in FY 04 and FY 05.
- As a result, local governments are expected to receive \$424 million, of which 50 percent (or \$212 million) will be allocated to cities.
- Preliminary estimates suggest that Long Beach could receive well over \$3 million (compared to last year's allocation of \$2.1 million); however, the actual amount Long Beach will receive will not be known until the State releases the allocations.

Specifically, the City of Long Beach was to receive the following amounts over the past few years:

Fiscal Year	Expected	Actual
FY 03	\$1,226,960	\$1,226,960
FY 04	\$1,549,056	\$0
FY 05	\$1,472,358	\$0
FY 06	\$2,054,268	\$2,054,268
FY 07	\$0	Over \$3 million*
FY 08	\$0	
*Estimated as actual amounts have not yet been released Source: League of California Cities		

- The State's action to fully fund the Proposition 42 account in Fiscal Year 2007 and repay past debts to cities is commendable, as it will enable us to improve some of our City's roadways and infrastructure.
- However, these funds must be perpetually available to systematically pay for both deferred and future maintenance and rehabilitation projects.

Prop 1A Protection Measure

- Earlier this year as part of the Infrastructure Bond package, the State Legislature voted to place a measure to protect Prop 42 revenues (SCA 7) on the November ballot, an issue the City has been in support of for many years.
 - This ballot measure would allow the State to borrow from the Transportation Investment Fund under conditions very similar to the original Prop 1A, which protected local government revenues from State raids.
 - Specifically, the State could borrow from the fund to balance a General Fund deficit if the state declares an emergency.
 - However, the State would be restricted borrowing only twice in a 10 year period and must repay within 3 years of borrowing.
- The City Council has requested the City Attorney to prepare a resolution in full support of the entire infrastructure bond package, as well as the Prop 42 fix.

Local Street Funding in the Transportation Bond

- The Transportation Bond that will appear on the November 2006 ballot includes \$2 billion for cities and counties (\$1 billion for each) to use for a broad range of uses related to local streets, including improvement, repair, maintenance, matching dollars, drainage projects, and many other uses.
 - Each city will receive a minimum of \$400,000, and the rest will be distributed based on population.
 - Long Beach is expected to receive \$15.6 million based on this formula.
 - This funding is critically needed and has been one of the City Council's main priorities.